



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

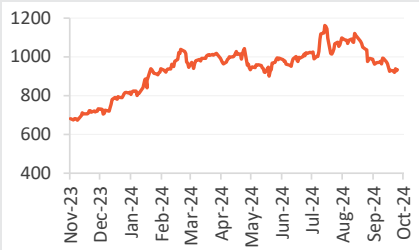
Company details

Market cap:	Rs. 342,874 cr
52-week high/low:	Rs. 1179 / 622
NSE volume: (No of shares)	115.7 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	178.2 cr

Shareholding (%)

Promoters	46.4
FII	18.2
DII	16.0
Others	19.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.9	-7.2	-7.5	37.1
Relative to Sensex	-9.3	-9.1	-17.8	13.2

Sharekhan Research, Bloomberg

Tata Motors Ltd

Gradual recovery in H2FY2025

Automobiles	Sharekhan code: TATAMOTORS			
Reco/View: Buy	↔	CMP: Rs. 932	Price Target: Rs. 1,319	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- JLR reported a 10% y-o-y decline in volumes in Q2FY2025 due to production constraint.
- JLR has already guided for a production constraint in Q2FY2025 in advance and further guided for a strong recovery in production in H2FY2025.
- BMW has cut down EBIT margin guidance for CY2024, largely due to company-specific issues.
- Given JLR's production constraint issue has already been guided and BMW's guidance for EBIT margin cut in FY2025 was more of a company-specific issue, we maintain our BUY view on Tata Motors Limited (TML) with an unchanged PT of Rs. 1,319 based on expectations of continued improvement in JLR, PV, and CV businesses as well as reduced net automotive debt.

We reiterate our BUY recommendation on Tata Motors Limited (TML), as (1) JLR's production constraint in Q2FY2024 was known, (2) BMW's margin cut down was more of a company-specific issue, (3) JLR's guidance of 8.5% EBIT margin in FY2025 was accounted with a moderation in global demand, and (4) Management's expectation of a strong recovery in both JLR's production and wholesale volumes in H2FY2025. Recently, BMW – a leading global player in the luxury car segment – has cut down its EBIT margin guidance to 6-7% for CY2024 from 8-10%, as it is assuming a high warranty liability in Q3CY2024 due to issues with the integrated braking system and concerns pertaining to the Chinese market. Given that BMW's margin guidance cut is largely led by company-specific issues, we believe it is not appropriate to consider the same as a reference point for the whole industry and its peers as the key reason for the cut down in EBIT margin was company-specific. JLR anticipates a strong recovery in both production and wholesale volumes in H2FY2025. Further, management expects a gradual recovery in the CV segment from Q3FY2025 considering the healthy festive season and hope of an increase in infra spending. Given the rise in inventory levels, its domestic PV business limits wholesales to control inventories.

JLR's production constraint in Q2 was known

JLR's subdued volume performance in Q2FY2025 has not surprised, as management had highlighted a production constraint in Q2FY2025 in its earlier communication. JLR's wholesale volumes (excluding the China joint venture) fell by 10% y-o-y (-11% q-o-q) to 87,303 units. Production was limited to 86,000 units, a 7% y-o-y decline, primarily due to supply disruptions with high-grade aluminum, as previously indicated by management. Additionally, a temporary hold was placed on 6,500 vehicles at the end of September, mainly in the U.K. and Europe, to allow for extra quality control checks. These vehicles are expected to be sold in the second half of the year. The mix of the most profitable models, including the Range Rover, Range Rover Sport, and Defender, accounted for 67% of total wholesale volumes. JLR anticipates a strong recovery in both production and wholesale volumes in H2FY2025.

BMW's EBIT margin guidance cut is company-specific

BMW has recently downgraded its outlook for CY2024 deliveries and profitability due to supply issues with a vendor and weak demand in China. The Board of Management of BMW AG has revised its guidance for the 2024 financial year, prompted by additional challenges in the automotive segment. These challenges include delivery halts and technical issues related to the Integrated Braking System (IBS) supplied by a vendor. The delivery stops for vehicles not yet with customers are expected to negatively impact worldwide sales in the second half of the year. The IBS-related technical issues affect over 1.5 million vehicles and are anticipated to incur additional warranty costs in the high three-digit millions for Q3CY2024. Concurrently, ongoing weak consumer sentiment in China, despite government stimulus measures, is impacting sales volumes. Given these factors, the BMW Group has adjusted its 2024 financial guidance as follows: (1) a slight decrease in deliveries compared to the previous year (down from a previously expected slight increase); (2) an EBIT margin forecast of 6% to 7% (down from 8% to 10%); and (3) a Return on Capital Employed (RoCE) of 11% to 13% (down from 15% to 20%).

H2FY2025 is expected to be better than H1FY2025

JLR had earlier highlighted for a muted global demand and range-bound commodity price points. Similarly, it has also indicated a production constraint in Q2FY2025 and Q3FY2025 owing to supply disruptions. Despite these, it has guided for an 8.5%+ EBIT margin for FY2025, which reflects that demand concerns in BMW's commentary and its muted volume performance in Q2FY2025 were factored in JLR's guidance. JLR has guided for a revenue of GBP30 billion, EBIT margin at 8.5% plus, and become net cash positive in FY2025. The PV and CV businesses have registered muted volume performance in H1FY2025. The CV and PV businesses have registered a 7.6% and 3.7% decline in volumes in H1FY2025. Given the subdued volume performance, we expect TML to report a 3.9% decline in revenue, a 1.6% decline in EBITDA, and mere 30bps expansion in EBITDA margin to 13.4% on a y-o-y basis in Q2FY2025. However, we retain our full-year estimates in expectation of improvement in its businesses in H2FY2025.

Our Call

Valuation – Maintain BUY with an unchanged PT of Rs. 1,319: Given JLR's production constraint issue has already been guided and BMW's guidance for EBIT margin cut in FY2025 was more of a company-specific issue, we assume TML may report a modest performance in Q2FY2025. We believe the anticipated recovery in JLR's production in H2FY2025 would keep it matching its guidance for FY2025. Management continues to focus on sustaining its operating profitability in domestic PV and CV businesses and expects commodity prices to remain range-bound in the near term. An EV battery cell plant within the group would help the company in achieving speedy product validation and reduce the dependence on third-party suppliers. While hydrogen fuel cell technology is at a nascent stage, TML has been making efforts to secure its growth prospects in the hydrogen space in future. Given that the JLR's production constraints are only temporary while the structural pace has been maintained, we retain our BUY rating on TML with an unchanged PT of Rs. 1,319 based on expectations of continued improvement in JLR, PV, and CV businesses as well as reduced net automotive debt.

Key Risks

TML's business is dependent upon cyclical industries such as CVs and PVs. Moreover, the company operates across the globe. Any slowdown or cyclical downturn in any of the locations where the company has a strong presence can affect business and profitability. The company's operations can be further affected if the ongoing global chips shortage worsens.

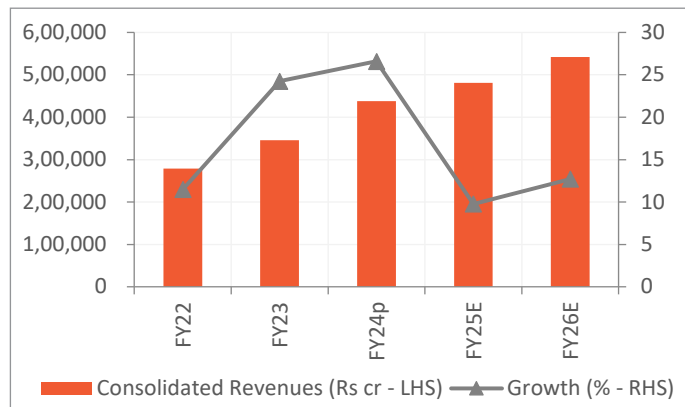
Valuation (Consolidated)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Sales	2,78,454	3,45,967	4,37,928	4,80,682	5,41,768
Growth (%)	11.5	24.2	26.6	9.8	12.7
AEBIDTA	24,813	31,830	59,610	71,346	82,306
OPM (%)	8.9	9.2	13.6	14.8	15.2
APAT	(10,719)	734	21,520	25,222	31,302
Growth (%)	-	-	-	17.2	24.1
FD EPS (Rs)	(28)	2	56	66	82
P/E (x)	-	-	16.6	14.2	11.4
P/B (x)	8.0	7.9	4.2	3.3	2.6
EV/EBIDTA (x)	17.4	13.4	6.6	6.0	5.3
RoE (%)	-	1.6	25.3	23.4	22.9
RoCE (%)	2.6	5.0	23.3	13.2	13.7

Source: Company; Sharekhan estimates

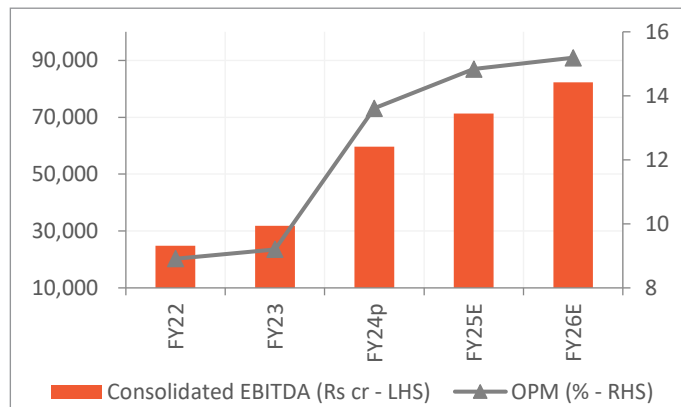
Financials in charts

Revenue and Growth Trend



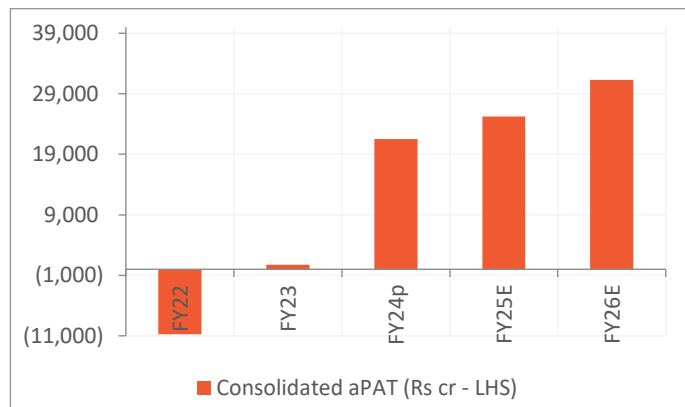
Source: Company, Sharekhan Research

EBITDA and OPM Trends



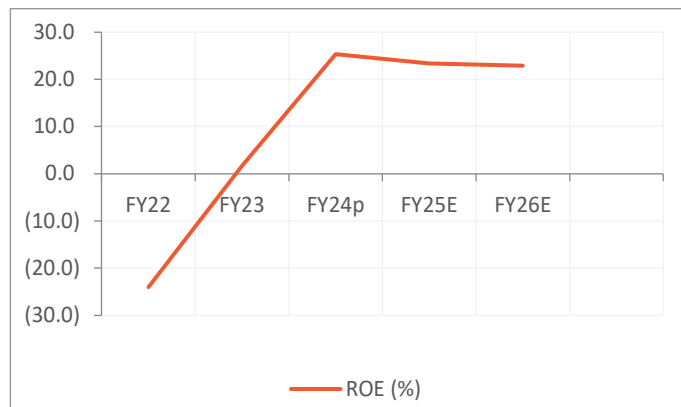
Source: Company, Sharekhan Research

PAT



Source: Company, Sharekhan Research

ROE Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Demand outlook remains strong

Production has been recovering with the easing of the semiconductor chip supply issue. We believe global vehicle production would see lesser headwinds in FY2025 compared to FY2023 on account of improved supply chain situation. While pent-up demand has been playing out in the domestic PV market, the same would continue to play out in the global luxury market for some time. Domestic PV and CV segments are witnessing an uptick in the near term as the CV cycle is assumed to be in a cyclical uptick phase and the PV segment is observing a structural uptick.

■ Company outlook - On a strong growth path

We expect TML to benefit from all its business verticals – JLR, CVs, and PVs. H2FY2025 is expected to be strong as compared to H1FY2025, aided by volume growth and better operational efficiencies aided by aggressive product launches, market positioning, product differentiation, cost savings, and investments in R&D. Outlook of the domestic CV business is positive, with notable demand arising from infrastructure, mining, and e-commerce activities. TML's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio and gaining EV traction.

■ Valuation - Maintain BUY with an unchanged PT of Rs. 1,319

Given JLR's production constraint issue has already been guided and BMW's guidance for EBIT margin cut in FY2025 was more of a company-specific issue, we assume TML may report a modest performance in Q2FY2025. We believe the anticipated recovery in JLR's production in H2FY2025 would keep it matching its guidance for FY2025. Management continues to focus on sustaining its operating profitability in domestic PV and CV businesses and expects commodity prices to remain range-bound in the near term. An EV battery cell plant within the group would help the company in achieving speedy product validation and reduce the dependence on third-party suppliers. While hydrogen fuel cell technology is at a nascent stage, TML has been making efforts to secure its growth prospects in the hydrogen space in future. Given that the JLR's production constraints are only temporary while the structural pace has been maintained, we retain our BUY rating on TML with an unchanged PT of Rs. 1,319 based on expectations of continued improvement in JLR, PV, and CV businesses as well as reduced net automotive debt

SOTP valuation

Business	Valuation basis	Multiple	Per share value (Rs.)
PV business	FY2026E EBITDA	14.0	196
CV business	FY2026E EBITDA	14.0	396
JLR business	FY2026E EBITDA	4.0	660
Total EV			1251
Net automotive debt			-17
Total equity value			1235
China JV	FY2026E sales	0.5	39
Tata Technologies	53.39% stake with a 20% holding company discount		46
Total value per share			1319

Source: Company; Sharekhan estimates

About company

TML manufactures cars and commercial automotive vehicles. The company designs, manufactures, and sells heavy, medium, and small CVs, including trucks, tankers, vans, buses, ambulances, and minibuses. TML also manufactures small cars and sports utility vehicles (SUVs). The company is a leading CV manufacturer in India. TML acquired Jaguar and Land Rover brands in 2008; and Jaguar and Land Rover brands merged to form one unified company in 2013.

Investment theme

We are positive on TML, considering its resilient operational performance lately, robust FCF for JLR, and standalone businesses led by the company's all-round strong performance, falling debt, and better earnings visibility. We expect the company's operational performance to continue in the medium term, with recovery in all verticals of automotive businesses. Outlook for the JLR business is positive, aided by improving macro-environment in Europe, U.K., America, and China. Outlook of the domestic CV business is at the cusp of a sharp cyclical rebound, with notable demand arising from infrastructure, mining, and e-commerce activities. TML's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio. TML's management is committed towards reaching zero debt for its automotive business division. Robust result turnaround in key businesses is a strong reason to believe that the company is on the right track towards achieving zero debt level. We expect all-round improvement in the company's business and, hence, maintain our BUY view on the stock.

Key Risks

TML's business is dependent upon cyclical industries – CV and PV. Moreover, the company's business is present across the globe. Any slowdown or cyclical downturn in any of the locations, where it has a strong presence, can impact its business and profitability.

Additional Data

Key management personnel

Girish Wagh	Executive Director
Adrian Mardell	CEO, JLR
P B Balaji	Group Chief Financial Officer
Shailesh Chandra	MD, Passenger Vehicle and Electric Mobility

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Tata Sons Pvt Ltd	43.68
2	Life Insurance Corp of India	2.94
3	SBI Funds Management Ltd	2.24
4	Tata Industries Ltd	2.17
5	Vanguard Group Inc/The	2.02
6	BlackRock Inc	1.89
7	Jhunjhunwala Rekha Rakesh	1.28
8	HDFC Asset Management Co Ltd	1.15
9	UTI Asset Management Co Ltd	1.00
10	Norges Bank	0.85

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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